

Message Text

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ACTION EUR-12

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FM AMCONSUL TORONTO

TO SECSTATE WASHDC 4624

INFO AMEMBASSY OTTAWA

AMCONSUL MONTREAL

AMCONSUL QUEBEC

UNCLAS TORONTO 2215

E.O. 11652: N/A

TAGS: EINV, ECON, CA

SUBJECT: TORONTO BROKERAGE GUARDEDLY OPTIMISTIC ABOUT PQ GOVERNMENT
POSTURE BUT SEES CONTINUED MARKET UNCERTAINTY.

REF: TORONTO 2150

1. MOSS, LAWSON & CO. MARKET NOTES OF CEC 1 CITED THE PAST POLICY
STATEMENTS OF THE P.Q. WHICH REPRESENT THE EXTREME SOCIALIST PLATFORM
POSSIBLE UNDER THE NEW GOVERNMENT BUT THEN STATED "TEMPORING THIS
EXTREME, ONE HAS TO EXAMINE THE PEOPLE IN THE P.Q. CABINET, ITS
LEADER, RENE LEVESQUE AND THE REALITIES OF QUEBEC ECONOMICS.
THE RECENTLY ANNOUNCED CABINET CONTAINS INDIVIDUALS WITH SOLID
INTELLECTUAL AND EXPERIENCE QUALIFICATIONS, MANY OF WHOM WERE
IN FEDERAL OR PROVINCIAL CIVIL SERVICE POSTS AT SENIOR LEVELS. WHILE
THE BACKGROUND OF THE P.Q. IS TAINTED BY THE SEPERATIST IMAGE AND
VERY LEFT-SOUNDING PROPAGANDA, THE ACTUAL GOVERNING POLICY MAY
PROVE TO BE MUCH MILDER, AT LEAST OVER THE SHORT-TERM."

2. THE BROKERAGE HOUSE THEN OUTLINED THE IMMEDIATE ECONOMIC
REALITIES IN QUEBEC FACING THE P.Q. AS:

(A) HAVING BORROWED DOLS 891 MILLION IN U.S. AND CANADAIN MONEY
MARKETS SINCE BEGINNING OF 1976-77 FISCAL YEAR, QUEBEC NEEDS
FURTHER DOLS 1.23 BILLION BY FISCAL YEAR END AND THIS "IMPLIES
MAINTAINING A REASONABLE IMAGE FOR NEW YORK LENDERS."

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(B) UNEMPLOYMENT IN QUEBEC IS APPROXIMATELY 10 PERCENT AND "WILL

LIKELY WORSEN AS MORE CAPITAL INVESTMENT PROJECTS ARE CANCELLED OR POSTPOSED DUE TO THE UNCERTAINTIES GENERATED BY THE P.Q. GOVERNMENT.

MANY SERVICE FUNCTION JOBS ARE ALSO BEING LOST AS HEAD-OFFICE FUNCTIONS CONTINUE TO BE TRANSFERRED TO ONTAIO."

(C) QUEBEC'S OUTSTANDING DEBT TOTALS DOLS 11.76 BILLION WITH DOLS 996 MILLION OF A BUDGETARY DEFICIT OF DOLS 1.42 BILLION EXPECTED TO COME FROM PUBLIC DEBENTURES.

(D) HYDRO-QUEBEC HAS DOLS 700 MILLION STILL ON HAND FROM ITS RECENT

DOLS 1.8 BILLION NEW YORK BORROWING. IT WILL CONTINUE TO BE ACTIVE IN THE MONEY MARKET.

(E) THE P.Q. PLATFORM MADE PROMISES IN PUBLIC HOUSING AND WELFARE, BOTH EXPENSIVE AREAS. THE FIRM BELIEVED THE P.Q. WILL HAVE A "FULLPLATE" TO SOLVE BEFORE CONSIDERING THE SEPARATION ISSUE.

3. THE BROADER QUESTION OF EFFECTS ON THE EQUITY MARKETS REMAINS UNRESOLVED, THE BROKERAGE CONTINUED. IT NOTED THAT "MARKET PERFORMANCE SINCE THE P.Q. VICTORY TEND TO CONFIRM" THE RECENT STATEMENT OF EX-FINANCE MINISTER TURNER REGARDING CANADA BEING NOT ONLY A POOR CREDIT RISK ABROAD BUT NOW ALSO A POLITICAL RISK. MOSS LAWSON CONCLUDED: "INVESTORS FACED WITH THESE UNCERTAINTIES COUPLED WITH THE CONINUING FEDERAL GOVERNMENT POLICIES ARE FORCED TO LOOK AT THE MARKET WITHOUT EMOTION. IN TERMS OF EQUITY PRICES, MANY SECURITIES ARE SELLING AT LEVELS NOT SEEN FOR ANUMBER OF YEARS. HOWEVER, FUNDAMENTALS HAVE CHANGED AND PREVIOUSLY USED INVESTMENT PARAMETERS MAY NOT BE APPLICABLE IN THE FUTURE. IT IS DIFFICULT TO ESTMATE WHEN OR AT WHAT LEVEL THE CURRENT SELLING-WAVE WILL TERMINATE."
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